

HEIDRICK & STRUGGLES INTERNATIONAL INC

Form 10-Q

October 28, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 0-25837

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

36-2681268
(I.R.S. Employer
Identification Number)

233 South Wacker Drive-Suite 4200

Chicago, Illinois

60606-6303

(Address of Principal Executive Offices)

(312) 496-1200

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period of time that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-Accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 23, 2014, there were 18,244,337 shares of the Company's common stock outstanding.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)**

	September 30, 2014 (Unaudited)	December 31, 2013
Current assets:		
Cash and cash equivalents	\$ 159,537	\$ 181,646
Accounts receivable, net	94,130	71,666
Other receivables	9,762	6,906
Prepaid expenses	15,153	14,786
Other current assets	1,757	1,937
Income taxes recoverable	7,098	5,772
Deferred income taxes	6,949	8,061
Total current assets	294,386	290,774
Non-current assets:		
Property and equipment, net	30,070	34,961
Restricted cash	7,998	7,878
Assets designated for retirement and pension plans	20,850	22,685
Investments	14,276	13,848
Other non-current assets	6,649	5,693
Goodwill	122,657	123,274
Other intangible assets, net	22,432	26,637
Deferred income taxes	22,258	27,474
Total non-current assets	247,190	262,450
Total assets	\$ 541,576	\$ 553,224
Current liabilities:		
Current portion of debt	\$ 6,000	\$ 6,000
Accounts payable	5,532	7,791
Accrued salaries and employee benefits	104,803	109,943
Deferred revenue, net	31,848	27,714
Other current liabilities	24,797	18,938
Income taxes payable	4,655	5,401
Total current liabilities	177,635	175,787

Non-current liabilities:		
Non-current debt, less current maturities	25,000	29,500
Retirement and pension plans	37,044	38,735
Other non-current liabilities	53,341	61,329
Total non-current liabilities	115,385	129,564
Total liabilities	293,020	305,351
Commitments and contingencies (Note 18)		
Stockholders equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued at September 30, 2014 and December 31, 2013		
Common stock, \$0.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 18,240,995 and 18,134,129 shares outstanding at September 30, 2014 and December 31, 2013, respectively	196	196
Treasury stock at cost, 1,344,782 and 1,451,648 shares at September 30, 2014 and December 31, 2013, respectively	(44,261)	(47,811)
Additional paid in capital	231,382	232,008
Retained earnings	47,169	48,511
Accumulated other comprehensive income	14,070	14,969
Total stockholders equity	248,556	247,873
Total liabilities and stockholders equity	\$ 541,576	\$ 553,224

The accompanying notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
Revenue before reimbursements (net revenue)	\$ 125,829	\$ 118,981	\$ 373,030	\$ 343,992
Reimbursements	4,432	4,523	13,721	14,148
Total revenue	130,261	123,504	386,751	358,140
Operating expenses:				
Salaries and employee benefits	84,046	81,671	252,089	236,216
General and administrative expenses	32,226	28,957	98,092	93,292
Reimbursed expenses	4,432	4,523	13,721	14,148
Total operating expenses	120,704	115,151	363,902	343,656
Operating income	9,557	8,353	22,849	14,484
Non-operating expense:				
Interest, net	(152)	(91)	(232)	(120)
Other, net	(488)	(709)	(444)	(1,675)
Net non-operating expense	(640)	(800)	(676)	(1,795)
Income before income taxes	8,917	7,553	22,173	12,689
Provision for income taxes	5,925	3,429	16,138	7,844
Net income	2,992	4,124	6,035	4,845
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	(2,315)	232	(1,067)	(1,769)
Net unrealized (loss) gain on available-for-sale investments	(349)	436	160	783
Unrealized (loss) gain on cash flow hedge	77	(74)	8	76
Other comprehensive (loss) income, net of tax	(2,587)	594	(899)	(910)
Comprehensive income	\$ 405	\$ 4,718	\$ 5,136	\$ 3,935
Basic weighted average common shares outstanding	18,233	18,104	18,200	18,064
Dilutive common shares	233	119	197	143

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Diluted weighted average common shares outstanding	18,466	18,223	18,397	18,207
Basic net income per common share	\$ 0.16	\$ 0.23	\$ 0.33	\$ 0.27
Diluted net income per common share	\$ 0.16	\$ 0.23	\$ 0.33	\$ 0.27
Cash dividends paid per share	\$ 0.13	\$ 0.13	\$ 0.39	\$ 0.26

The accompanying notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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(In thousands)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated	
	Shares	Amount	Shares	Amount			Other Compre- hensive Income	Total
Balance at December 31, 2013	19,586	\$ 196	1,452	\$(47,811)	\$ 232,008	\$ 48,511	\$ 14,969	\$ 247,873
Net income						6,035		6,035
Other comprehensive loss, net of tax							(899)	(899)
Treasury and common stock transactions:								
Stock-based compensation					2,885			2,885
Vesting of equity, net of tax withholdings			(84)	2,737	(3,141)			(404)
Re-issuance of treasury stock			(23)	813	(363)			450
Cash dividends declared (\$0.39) per share)						(7,108)		(7,108)
Dividend equivalents on restricted stock units						(269)		(269)
Tax deficit related to stock-based compensation					(7)			(7)
Balance at September 30, 2014	19,586	\$ 196	1,345	\$(44,261)	\$ 231,382	\$ 47,169	\$ 14,070	\$ 248,556

The accompanying notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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	Nine Months Ended September 30,	
	2014	2013
Cash flows operating activities:		
Net income	\$ 6,035	\$ 4,845
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	11,359	12,046
Deferred income taxes	5,633	(500)
Stock-based compensation expense	2,885	2,775
Accretion expense related to earnout payments	1,308	1,551
Cash paid for restructuring charges	(108)	(918)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts and other receivables	(27,196)	(21,607)
Accounts payable	(2,177)	(2,381)
Accrued expenses	(1,774)	(12,073)
Deferred revenue	4,486	1,964
Income taxes payable, net	(2,220)	4,826
Retirement and pension plan assets and liabilities	100	574
Prepaid expenses	(557)	